

An Audit

Wisconsin Educational Communications Board Radio Network

2003-2004 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person
Bethany Quade
Dana Apfelbeck

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

December 19, 2003

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Mr. Thomas Fletemeyer, Executive Director
Educational Communications Board
3319 West Beltline Highway
Madison, Wisconsin 53713

Dear Senator Roessler, Representative Jeskewitz, and Mr. Fletemeyer:

We have completed a financial audit of the State of Wisconsin Educational Communications Board Radio Network to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by the Educational Communications Board to fulfill the audit requirements of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels.

The Educational Communications Board, which is an agency of the State of Wisconsin, operates a radio network of 12 FM stations and 1 AM station, as well as a television network of 5 digital stations and 5 analog stations. The radio network received \$9.3 million in support and revenue during fiscal year 2002-03, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains the financial statements and related notes for the period July 1, 2002, through June 30, 2003. We were able to issue an unqualified independent auditor's report on these statements.

We appreciate the courtesy and cooperation extended to us by Educational Communications Board staff during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/DA/ss

Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board Radio Network

We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Radio Network's Operating Fund and the Wisconsin Public Broadcasting Foundation Inc.'s Radio Fund as of June 30, 2003, and the related statement of revenues, expenses, and changes in fund net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Educational Communications Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin Public Radio Association, of which net assets of \$694,163 are contractually committed to the Educational Communications Board and are reflected in the accompanying financial data contained in Note 12. Net assets and revenues of the Wisconsin Public Radio Association included in the accompanying financial statements represent 7.9 percent of total assets and 38.8 percent of total revenue. The financial statements of the Wisconsin Public Radio Association were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio

Association were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the additional requirements of *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.


As discussed in Note 1, the financial statements present only the Wisconsin Educational Communications Board Radio Network and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the Wisconsin Educational Communications Board Radio Network's Operating Fund and the Wisconsin Public Broadcasting Foundation Inc.'s Radio Fund as of June 30, 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Educational Communications Board Radio Network. Management's Discussion and Analysis on pages 5 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2003, on our consideration of the Wisconsin Educational Communications Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 9, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director

Management's Discussion and Analysis ■

Prepared by Educational Communications Board Management

The Management's Discussion and Analysis (MD&A) section is prepared by the Educational Communications Board's (ECB's) management and is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. The MD&A provides the reader with general information on the financial activities of ECB and the Wisconsin Public Broadcasting Foundation, Incorporated (WPBF).

ECB is an agency of the State of Wisconsin that operates a public radio network of 12 FM stations and 1 AM station, as well as a public television network of 5 digital stations and 5 analog stations. ECB also operates 3 FM translators, 6 TV translators, and a network of 26 weather service broadcast sites. WPBF was organized by ECB under s. 39.12 and ch. 181, Wis. Stats., on September 29, 1983, for the exclusive purpose of raising funds for the Wisconsin educational television and radio networks.

Following this section are the financial statements and notes as they relate to the ECB Radio Network. The Balance Sheet provides information on the types of assets and the liabilities of ECB, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Radio Network's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Statement of Cash Flows provide information on income and expenses and cash activities. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Radio Network's adoption of the GASB 34 reporting model had a significant effect on the format of the Statement of Revenues, Expenses, and Changes in Fund Net Assets. GASB 34 redirects the focus of the reader from the operating income gain or loss to the changes in fund net assets. State General Fund revenue has been moved from operating revenues to nonoperating revenues. The result is a net operating loss in our net operating revenues line. This loss is offset when the nonoperating revenues (with state General Fund revenue) and capital contributions are later added in, resulting in a positive change in net assets.

Condensed financial information relating to the ECB Radio Network as of and for the fiscal years ended June 30, 2003, and June 30, 2002, is as follows:

ECB Radio Network Condensed Financial Information

	June 30, 2003	June 30, 2002	Percentage Change
Total Assets	\$8,756,749	\$6,724,323	30%
Total Liabilities	1,436,765	1,389,230	3
Net Assets	<u>\$7,319,984</u>	<u>\$5,335,093</u>	

	FY 2002-03	FY 2001-02	Percentage Change
Operating Revenue	\$5,544,980	\$5,260,307	5%
Operating Expenses	7,362,868	6,600,100	12
Net Operating Loss	(1,817,888)	(1,339,793)	
Nonoperating Revenue	1,579,275	1,297,305	22
Capital Contributions	2,223,504	1,035,817	115
Changes in Net Assets	<u>\$1,984,891</u>	<u>\$993,329</u>	

The total assets increase of 30 percent and the liabilities increase of 3 percent were due to the rebuilding of network infrastructure to accommodate the conversion to digital television. The towers and buildings that were improved for the conversion are used by the Television and Radio networks.

It should be noted that \$5,573,416 of the fixed assets of ECB related to radio are presented at historical cost less depreciation. Replacement cost of buildings and equipment, using the Builders Cost Index, is over \$48 million for the combined statewide public radio and television networks.

Operating revenues increased due to an increase in contributions, underwriting, and grants. Expenses overall increased from the level of last fiscal year due to the purchase of equipment to improve the distribution systems used by radio and television that were not capitalized.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized. Investment income increased in FY 2002-03 because of the market improvement. In accordance with GASB 34, nonoperating revenues also includes State General Fund Revenues received for operations, State Insurance Funds, and State Building Trust Fund Revenue received for an operating lease.

Capital contributions increased with funding received from the State Building Trust Fund used to improve the distribution systems used by television and radio.

The net results of all operations for the year are summarized in the line titled Changes in Net Assets. FY 2002-03 showed a large increase in Changes in Net Assets due to the Capital Contributions required for the buildup of the network infrastructure.

This financial report is designed to provide a general overview of the Educational Communications Board's finances related to public radio. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to ECB in care of the Associate Director for Finance and Administration, 3319 West Beltline Highway, Madison, WI 53713-4296.

General information relating to the Educational Communications Board can be found at ECB's Web site, *www.ecb.org*.

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Financial Statements ■

Balance Sheet June 30, 2003

	Operating Fund	WPBF (Note 11)	Total June 30, 2003	Restated Total June 30, 2002
ASSETS				
Current Assets:				
Cash and cash equivalents (Notes 1 and 2)	\$ 248,927	\$ 713,266	\$ 962,193	\$ 798,688
Investments (Notes 1 and 2)	0	1,343,069	1,343,069	1,572,461
Equity in resources held by WPRA (Note 12)	0	694,163	694,163	332,308
Receivable—state general appropriation	67,562	0	67,562	299,855
Grants and contracts receivable	6,305	0	6,305	70,448
Interfund receivable (payable) (Note 3)	81,212	(81,212)	0	0
Interest receivable	0	2,458	2,458	3,021
Prepaid expenses (Note 6)	5,667	6,148	11,815	0
Other receivables	4,935	0	4,935	5,144
Total Current Assets	414,608	2,677,892	3,092,500	3,081,925
Noncurrent Assets:				
Prepaid expenses (Note 6)	90,833	0	90,833	0
Land (Note 4)	68,845	0	68,845	68,845
Buildings (Note 4)	2,198,464	0	2,198,464	1,146,980
Equipment (Note 4)	3,306,107	0	3,306,107	2,426,573
Total Noncurrent Assets	5,664,249	0	5,664,249	3,642,398
TOTAL ASSETS	\$ 6,078,857	\$ 2,677,892	\$ 8,756,749	\$ 6,724,323
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 397,105	\$ 162	\$ 397,267	\$ 256,424
Accrued liabilities due to affiliates	627,250	192,098	819,348	914,383
Bonds payable (Note 7)	5,321	0	5,321	5,100
Total Current Liabilities	1,029,676	192,260	1,221,936	1,175,907
Noncurrent Liabilities:				
Compensated absences payable (Note 5)	74,417	0	74,417	67,590
Bonds payable (Notes 5 and 7)	140,412	0	140,412	145,733
Total Noncurrent Liabilities	214,829	0	214,829	213,323
Net Assets:				
Invested in capital assets, net of related debt paid by ECB	5,427,683	0	5,427,683	3,491,565
Unrestricted	(593,331)	2,485,632	1,892,301	1,843,528
Total Net Assets	4,834,352	2,485,632	7,319,984	5,335,093
TOTAL LIABILITIES AND NET ASSETS	\$ 6,078,857	\$ 2,677,892	\$ 8,756,749	\$ 6,724,323

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2003

	Operating Fund	WPBF (Note 11)	Total 2002-03	Restated Total 2001-02
OPERATING REVENUES				
Contributed Support (Note 12)	\$ 0	\$ 3,623,731	\$ 3,623,731	\$ 3,480,046
Corporation for Public Broadcasting Grants	0	659,342	659,342	603,263
Underwriting Grants	0	653,449	653,449	622,069
Other Grants and Contracts	284,721	0	284,721	253,922
Major Gifts	0	3,000	3,000	0
Donated Services (Note 9)	239,005	0	239,005	190,220
Royalties and Other Income	75,036	6,696	81,732	110,787
Total Operating Revenues	598,762	4,946,218	5,544,980	5,260,307
OPERATING EXPENSES				
Program Services:				
Programming and production	3,374,225	112,676	3,486,901	3,393,413
Broadcasting	2,595,420	0	2,595,420	1,803,807
Program information	0	213,271	213,271	272,481
Total Program Services	<u>5,969,645</u>	<u>325,947</u>	<u>6,295,592</u>	<u>5,469,701</u>
Support Services:				
Management and general	567,655	104,259	671,914	709,006
Fund-raising and membership development	45,317	349,367	394,684	420,629
Underwriting	93	585	678	764
Total Support Services	<u>613,065</u>	<u>454,211</u>	<u>1,067,276</u>	<u>1,130,399</u>
Total Operating Expenses	6,582,710	780,158	7,362,868	6,600,100
OPERATING INCOME (LOSS)	(5,983,948)	4,166,060	(1,817,888)	(1,339,793)
NONOPERATING REVENUES				
State General Fund Revenue for Operations	1,461,464	0	1,461,464	1,526,279
State Building Trust Fund Revenue for Operating Lease (Note 6)	100,000	0	100,000	0
State Insurance Funds	7,624	0	7,624	1,006
Investment Income	0	10,187	10,187	(229,980)
Total Nonoperating Revenues	1,569,088	10,187	1,579,275	1,297,305
Income (Loss) Before Contributions and Transfers	(4,414,860)	4,176,247	(238,613)	(42,488)
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions (Note 8)	2,223,504	0	2,223,504	1,035,817
Interfund Transfers (Note 3)	3,966,952	(3,966,952)	0	0
CHANGE IN NET ASSETS	1,775,596	209,295	1,984,891	993,329
Total Net Assets—Beginning of the Year	3,058,756	2,276,337	5,335,093	4,341,764
Total Net Assets—End of the Year	<u>\$ 4,834,352</u>	<u>\$ 2,485,632</u>	<u>\$ 7,319,984</u>	<u>\$ 5,335,093</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2003

	Operating Fund	WPBF (Note 11)	Total 2002-03	Restated Total 2001-02
CASH FLOWS FROM OPERATING ACTIVITIES				
Contributed Support	\$ 0	\$ 4,280,180	\$ 4,280,180	\$ 4,102,115
Receipts from Grants	348,864	659,342	1,008,206	786,737
Receipts from Royalties and Other Sales	75,245	6,696	81,941	115,023
Payments to Suppliers	(4,259,547)	(759,013)	(5,018,560)	(4,507,228)
Payments to Employees	(1,632,233)	0	(1,632,233)	(1,498,543)
Net Cash Provided (Used) by Operating Activities	(5,467,671)	4,187,205	(1,280,466)	(1,001,896)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Receipts from State Government	1,705,548	0	1,705,548	1,536,754
Interfund Transfers	3,897,740	(3,897,740)	0	0
Net Cash Provided (Used) for Noncapital Financing Activities	5,603,288	(3,897,740)	1,705,548	1,536,754
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Contributions	2,223,504	0	2,223,504	1,035,817
Purchases of Capital Assets	(2,349,800)	0	(2,349,800)	(1,393,034)
Proceeds from Capital Debt	0	0	0	165,359
Principal Paid on Capital Debt	(5,100)	0	(5,100)	(4,887)
Interest Paid on Capital Debt	(8,468)	0	(8,468)	(4,752)
Net Cash Used for Capital and Related Financing Activities	(139,864)	0	(139,864)	(201,497)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Purchases, Sales, and Maturities of Investments	0	216,864	216,864	(102,435)
Interest and Dividends	0	23,278	23,278	34,610
Equity in Resources Held by WPRA	0	(361,855)	(361,855)	(174,453)
Net Cash Used for Investing Activities	0	(121,713)	(121,713)	(242,278)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,247)	167,752	163,505	91,083
Balances—Beginning of the Year	253,174	545,514	798,688	707,605
Balances—End of the Year	\$ 248,927	\$ 713,266	\$ 962,193	\$ 798,688

The accompanying notes are an integral part of this statement.

	Operating Fund	WPBF (Note 11)	Total 2002-03	Restated Total 2001-02
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (5,983,948)	\$ 4,166,060	\$ (1,817,888)	\$ (1,339,793)
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided by Operating Activities:				
Depreciation expense	332,477	0	332,477	282,216
Loss on disposal of fixed assets	86,305	0	86,305	461
Interest payment on bonds	8,468	0	8,468	4,752
Change in assets and liabilities:				
Receivables, net	64,352	0	64,352	(66,212)
Prepaid expense	(667)	(6,148)	(6,815)	0
Accounts and other payables	25,342	27,293	52,635	116,680
Net Cash Provided (Used) by Operating Activities	\$ (5,467,671)	\$ 4,187,205	\$ (1,280,466)	\$ (1,001,896)
Noncash Activities:				
Donated services totaled \$239,005.				
The net increase in the fair value of investments was \$84,302.				

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Educational Communications Board (ECB) is an agency of the State of Wisconsin that operates a public television network of 5 digital stations and 5 analog stations, as well as a public radio network of 12 FM stations and 1 AM station. ECB also operates 3 FM translators, 6 TV translators, and a network of 26 weather service broadcast sites. These financial statements include the accounts relating to the ECB Radio Network only. Separate accounts for the radio and television networks are maintained by direct charging whenever possible. All general organization transactions are distributed by an appropriate allocation system.

Radio Network financial statements are combined with the Radio Fund of the Wisconsin Public Broadcasting Foundation (WPBF), a not-for-profit corporation that solicits funds in the name of and with the express approval of ECB and provides support to the ECB radio and television networks. See Note 11 for further information regarding WPBF.

ECB Radio Network financial statements also include an equity interest in the Wisconsin Public Radio Association (WPRA), a not-for-profit corporation that collects funds for public radio and provides support to the ECB radio network and to WHA-Radio. See Note 12 for further information regarding WPRA.

B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). ECB has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Contributions and grants that are unrestricted are reported as support when ECB is entitled to them. Restricted revenues are reported as support when the purpose for which the resource was provided has been accomplished. Revenue is recognized for pledged WPRA contributions that are expected to be collected within one year. Non-cash contributions are recognized as revenues in the period of receipt.

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to the respective categories, using estimates if necessary. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Operating revenues are directly related to programming, production, development, and delivery of telecommunication services. Nonoperating revenues, such as interest revenue, are indirectly associated with programming, production, development, and delivery of telecommunication services. Certain significant revenue streams, such as state General Fund revenue, are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

C. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, broadcasting expense and administrative expense are allocated between the television and radio networks based upon historical costs. The actual results may differ from those estimates.

D. Cash and Cash Equivalents

Cash and cash equivalents in the Radio Network's operating fund include cash balances deposited with the State Treasurer and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the WPBF fund include cash deposits with financial institutions.

E. Valuation of Assessments

All investments of WPBF related to the Radio Network are carried at fair-market value based on quoted market prices. State Investment Fund shares are valued at fair-market value.

F. Receivable—State General Appropriations

The portion of liabilities to be financed with amounts appropriated by the State of Wisconsin for the current fiscal year is reported as a receivable as of the fiscal year-end.

G. Property and Equipment

Items classified as permanent property are recorded at cost or, for donated property, at the estimated fair-market value at the date of receipt. Assets are capitalized if their acquisition value is in excess of \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment to 20 years for buildings and towers. Expenses for repairs and maintenance are charged to operating expenses as incurred.

H. Employee Compensated Absences

Unused, earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System are also accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay.

I. Prior-Year Financial Statements

The financial information shown for fiscal year (FY) 2001-02 in the accompanying financial statements presents summarized totals and is included to provide a basis for comparison with FY 2002-03.

2. DEPOSITS AND INVESTMENTS

The cash balances of ECB's operating fund are deposited with the State of Wisconsin Treasurer and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. Holdings of the State Investment Fund include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers.

Shares in the State Investment Fund are not required to be categorized under GASB Statement 3. The State Investment Fund is not registered with the Securities and Exchange Commission.

WPBF manages its cash and investment activities separate from the cash and investment activities of the State Investment Fund. Cash balances are held in demand deposit and money market accounts at financial institutions. The investments of WPBF relating to the ECB Radio Network are managed by private trust companies. Investment income is presented as a nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

A. Deposits

GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of credit risk assumed. These risk categories are: 1) insured or collateralized, with securities held by the entity or by its agent in the entity's name; 2) collateralized, with securities held by the financial institution's trust department or agent in the entity's name; and 3) uninsured or uncollateralized.

At year-end, the carrying amount of ECB's Radio Network deposits with financial institutions was \$713,266, and the bank balance was \$1,099,860. The difference is the amount of checks outstanding on June 30, 2003. Deposits of up to \$100,000 at each financial institution are covered by the Federal Deposit Insurance Corporation (FDIC). Of the bank balance, \$100,000 was insured and, therefore, classified in risk category 1; \$999,860 was uninsured and uncollateralized and, therefore, classified in risk category 3.

B. Investments

Investments authorized by WPBF's Board of Trustees and held by WPBF include publicly traded stocks. GASB Statement 3 requires investments to be categorized to indicate the level of risk assumed by the State at year-end. The risk categories for investments are: 1) insured or registered, or the securities are held by the entity or its agent in the entity's name; 2) uninsured and unregistered, with securities held by counterparty or its agent in the entity's name; and 3) uninsured and unregistered, or the securities are held by counterparty or its agent, but not in the entity's name. With the exception of funds invested in the State Investment Fund, which are not required to be categorized, all investments meet the criterion for risk category 1. Detail for investment balances as of June 30, 2003, follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity Securities	\$1,343,069	\$1,337,231

3. FUND TRANSFERS

WPBF transfers funds monthly to ECB's operating fund based upon funding requirements. The transfers are reflected as interfund transfers on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The timing of those transfers and the expenses result in an interfund payable and a receivable at year-end, which are reflected in the Balance Sheet.

4. CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 68,845	\$ 0	\$ 0	\$ 68,845
Capital Assets Being Depreciated:				
Buildings	1,888,772	1,090,541	0	2,979,313
Equipment	<u>4,281,595</u>	<u>1,259,259</u>	<u>(367,147)</u>	<u>5,173,707</u>
Total Capital Assets at Historical Cost	6,170,367	2,349,800	(367,147)	8,153,020
Less Accumulated Depreciation for:				
Buildings	(741,792)	(39,057)	0	(780,849)
Equipment	<u>(1,855,022)</u>	<u>(293,420)</u>	<u>280,842</u>	<u>(1,867,600)</u>
Total Accumulated Depreciation	<u>(2,596,814)</u>	<u>(332,477)</u>	<u>280,842</u>	<u>(2,648,449)</u>
Total Capital Assets Being Depreciated, Net	<u>3,573,553</u>	<u>2,017,323</u>	<u>(86,305)</u>	<u>5,504,571</u>
Total Capital Assets, Net	<u>\$ 3,642,398</u>	<u>\$ 2,017,323</u>	<u>\$ (86,305)</u>	<u>\$ 5,573,416</u>

Depreciation expense was charged to functions as follows:

Programming	\$ 774
Delivery	308,288
Administration	<u>23,415</u>
Total Depreciation Expense	\$ 332,477

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years after the grant is closed, during which time the federal government retains priority reversionary interest in the equipment. ECB received four NTIA capital equipment grants related to the ECB Radio Network between FY 1995-96 and FY 2001-02. The book value of equipment purchased with NTIA funds is \$261,291 as of June 30, 2003.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$ 67,590	\$ 25,730	(\$18,903)	\$ 74,417
Bonds Payable	<u>145,733</u>	<u>0</u>	<u>(5,321)</u>	<u>140,412</u>
Noncurrent Liabilities	\$ 213,323	\$ 25,730	(\$24,224)	\$ 214,829

The noncurrent liabilities are generally funded with operating subsidies received from the State of Wisconsin, with the exception of the bonds payable, which are funded with program revenue (Note 7). The portion of the liability that is due within one year is reflected in the current liabilities on the Balance Sheet.

6. GREEN BAY TOWER OPERATING LEASE

The Department of Administration authorized ECB to enter into a long-term contract with Young Broadcasting of Green Bay, Inc., with the contract period not to exceed 20 years. ECB executed a multi-year lease of a tower, transmission line, antenna, channel combiner, air conditioning, and transmitter building. The lease agreement required a rent prepayment in the amount of \$743,000, of which \$100,000 was allocated to the Radio Network. The prepayment was paid in September 2002 and was funded by the Wisconsin State Building Trust Fund. The rent expense associated with the prepayment is being recognized over the life of the lease, which is 20 years. The amount paid in excess of the amount recognized is reported as a prepaid expense on the Balance Sheet.

In addition to the rent prepayment, ECB is required to make annual rent payments in lieu of taxes. The contract requires an initial payment of \$10,000 and a scheduled rent increase each lease year by 3 percent compounded until the end of the lease term. The annual payments are allocated 60 percent to the Television Network and 40 percent to the Radio Network.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 2003:

<u>Fiscal Year Ended June 30</u>	<u>Television Network</u>	<u>Radio Network</u>	<u>Total Amount</u>
2004	\$ 6,180	\$ 4,120	\$ 10,300
2005	6,365	4,244	10,609
2006	6,556	4,371	10,927
2007	6,753	4,502	11,255
2008	6,956	4,637	11,593
2009-2013	38,036	25,358	63,394
2014-2018	44,095	29,396	73,491
2019-2022	<u>40,281</u>	<u>26,854</u>	<u>67,135</u>
Total	<u>\$155,222</u>	<u>\$103,482</u>	<u>\$258,704</u>

7. GENERAL OBLIGATION BONDS AND NOTES

ECB has used proceeds received from a number of State of Wisconsin general obligation bonds and general obligation commercial paper notes to finance the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB. The proceeds were included as support in the year the facilities were acquired.

The general obligation bonds repaid by the State's general purpose revenue are not considered debt of ECB because their repayment is from general purpose revenue. Therefore, the debt financed through general purpose revenue appropriation is reported in the State of Wisconsin Comprehensive Annual Financial Report rather than the ECB Radio Network's financial statements. The indebtedness carried by the State of Wisconsin on behalf of the ECB Radio Network to be repaid by general purpose revenue as of June 30, 2003, is \$3,789,293 in general obligation bonds and \$149,677 in commercial paper notes. ECB is responsible for the repayment of interest on these obligations; therefore, interest expense of \$83,549 is included in the broadcasting expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

In addition to general obligations financed by general purpose revenue, three general obligation bond issues are financed through program revenues, as mandated by s. 20.255(1)(j), Wis. Stats. Because the repayment of this indebtedness is financed through ECB's program revenues, it represents debt of the ECB Radio Network and, accordingly, is presented as a liability in the financial statements. The amount provided through program revenue for indebtedness during FY 2002-03 is \$13,568, which consisted of a principal payment of \$5,100 and interest payment of \$8,468. The principal payment is recorded as a reduction of the current bonds payable, while the interest payment is included in the broadcasting expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

As of June 30, 2003, debt service requirements for principal and interest in future years for program revenue-funded bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2004	\$ 5,321	\$ 8,254	\$ 13,575
2005	5,567	7,988	13,555
2006	5,822	7,710	13,532
2007	6,103	7,419	13,522
2008	6,392	7,114	13,506
2009 to 2013	38,577	29,672	68,249
2014 to 2018	51,990	17,167	69,157
2019 to 2023	<u>25,961</u>	<u>2,413</u>	<u>28,374</u>
Total	<u>\$145,733</u>	<u>\$87,737</u>	<u>\$233,470</u>

8. CAPITAL CONTRIBUTIONS

The capital contributions for the ECB Radio Network are:

A. State of Wisconsin Building Trust Fund Appropriation

The amounts provided from the State of Wisconsin Building Trust Fund to finance ECB projects approved by the State Building Commission are recorded as revenue in the period expenses are incurred.

B. Grants

Federal grant funds received from NTIA and used to purchase capital equipment are recorded as support when the expense is incurred.

9. DONATED SERVICES

The financial statements include \$21,728 in donated professional services, \$208,697 in donated general operational services, and \$8,580 in donated instructional radio services. These contributions are recognized as revenues and expenses in the period received and used. Donated professional services are recorded at the fee typically charged by the professional for the same type of service. All other donated services are recorded at fair value, when clearly measurable, or at the cost of providing the service.

10. EMPLOYEE RETIREMENT PLAN

Permanent employees of the ECB Radio Network are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information of the Wisconsin Retirement System may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

The most current financial report is also available on the Department of Employee Trust Fund's Web site, *etf.wi.gov*.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The ECB Radio Network's contribution to the plan was \$140,296 for FY 2002-03. The relative position of the ECB Radio Network in the Wisconsin Retirement System is not available because the system is a statewide, multi-employer plan.

11. WISCONSIN PUBIC BROADCASTING FOUNDATION, INC. (WPBF)

The accounts of the ECB Radio Network are combined with the Radio Fund of WPBF, a not-for-profit corporation that solicits funds in the name of, and with the approval of, ECB. A summary of significant financial data relating to WPBF, which includes radio, television, and other non-broadcasting activities of WPBF, follows:

	Fiscal Year Ended <u>June 30, 2003</u>
Revenues	\$8,748,224
Expenses	<u>(1,704,059)</u>
Excess Revenues over Expenses	<u>\$7,044,165</u>
	<u>June 30, 2003</u>
Cash and Investments	\$5,132,272
Other Current Assets	710,809
Liabilities	<u>(506,452)</u>
Net Assets	<u>\$5,336,629</u>

12. RELATED ENTITIES

A. WHA Radio

WHA Radio is a public telecommunications entity licensed to the University of Wisconsin (UW) Board of Regents and operated by UW Extension. In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the UW Board of Regents developed partnerships called Wisconsin Public Radio and Wisconsin Public

Television to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. ECB and the UW Board of Regents jointly appoint the directors of Wisconsin Public Television and Wisconsin Public Radio. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the Balance Sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

B. Wisconsin Public Radio Association (WPRA)

WPRA is a not-for-profit corporation that solicits funds for public radio and provides support to the ECB Radio Network and WHA-Radio, a network of radio stations licensed to the UW Board of Regents. WPRA solicits funds in the name of, and with the approval of, both ECB and WHA Radio. ECB Radio and WHA Radio have access to WPRA's net resources and retain an ongoing equity interest. ECB Radio's equity interest in WPRA is calculated in accordance with an affiliation agreement, which currently provides ECB with 76 percent of WPRA net resources. This agreement is renegotiated annually based upon fund drive results.

ECB Radio includes in revenue the entire amount of WPRA net resources to which it is entitled each year. ECB Radio also recognizes WPRA expenses made on its behalf as both a contribution and an expense. A summary of amounts related to WPRA included in the accompanying financial statements follows:

		Fiscal Year Ended <u>June 30, 2003</u>
Equity in Resources Held by WPRA		\$ 694,163
Contributed Support		\$3,623,731
Expenses:		
Program information	\$213,271	
Management and general	79,847	
Fund-raising and membership development	<u>349,367</u>	
Total Expenses		\$ 642,485

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data follows:

	Fiscal Year Ended <u>June 30, 2003</u>
Revenues	\$4,746,249
Expenses	<u>(4,291,942)</u>
Excess of Revenues over Expenses	<u>\$ 454,307</u>

	<u>June 30, 2003</u>
Current Assets	\$1,464,041
Endowment Investments	214,255
Investments	110,405
Accounts Payable	(325,265)
Restricted Fund Balance	<u>(269,900)</u>
Net Assets Contractually Committed for Distribution to ECB and WHA Radio	<u>\$1,193,536</u>

C. Rib Mountain Communications

ECB entered into a joint ownership on November 1, 2001, to erect, operate, and maintain a new broadcast tower on Rib Mountain, Wisconsin. The agreement is between ECB; WRIG, Inc.; QNI; and Gray Midamerica Television, Inc. The shares of ownership are 33 percent, 23 percent, 20 percent, and 24 percent, respectively. Each party contributes its respective share of maintenance and repair on an annual basis. An annual budget is prepared for the joint ownership to determine respective amounts of maintenance due from each party. ECB allocates the asset and expense between the radio and television networks.

13. WHAD-FM ALLOCATION

On September 29, 1993, WHAD-FM and its affiliated Ideas Network stations qualified for Community Service Grant assistance from the Corporation for Public Broadcasting. WHAD-FM and affiliated Ideas Network stations are licensed to ECB, and the stations' financial transactions are included as part of the ECB Radio Network financial statements. That portion of the Statement of Revenues, Expenses, and Changes in Fund Net Assets attributable to Ideas Network stations' revenues, direct expenses, and related readily allocable indirect expenses are identified in the following table. The remaining revenues and expenses are considered attributable to WERN and its affiliated Music Network stations and include any unallocated amounts of the Ideas Network stations. A summary of the portions of ECB Radio Network activities attributed to WHAD-FM and WERN follows:

	WERN-FM and <u>Affiliates</u>	WHAD-FM and <u>Affiliates</u>	ECB Radio <u>Total</u>
Operating Revenues			
Contributed Support	\$2,359,677	\$1,264,054	3,623,731
Corporation of Public Broadcasting			
Grants	441,456	217,886	659,342
Underwriting Grants	225,362	428,087	653,449
Other Grants and Contracts	284,721	0	284,721
Major Gifts	3,000	0	3,000
In-Kind Donated Services	239,005	0	239,005
Royalties and Other Income	<u>81,732</u>	<u>0</u>	<u>81,732</u>
Total Operating Revenues	<u>3,634,953</u>	<u>1,910,027</u>	<u>5,544,980</u>
Operating Expenses			
Program Services:			
Programming and production	1,604,295	1,882,606	3,486,901
Broadcasting	2,372,804	222,616	2,595,420
Program information	<u>213,271</u>	<u>0</u>	<u>213,271</u>
Total Program Services	<u>4,190,370</u>	<u>2,105,222</u>	<u>6,295,592</u>
Support Services:			
Management and general	508,662	163,252	671,914
Fund-raising and membership			
development	394,684	0	394,684
Underwriting	<u>678</u>	<u>0</u>	<u>678</u>
Total Support Services	<u>904,024</u>	<u>163,252</u>	<u>1,067,276</u>
Total Operating Expenses	<u>5,094,394</u>	<u>2,268,474</u>	<u>7,362,868</u>
Operating Income (Loss)	(1,459,441)	(358,447)	(1,817,888)
Nonoperating Revenues			
State General Fund Revenue	1,095,434	366,030	1,461,464
State Building Trust Fund Revenue	100,000	0	100,000
State Insurance Funds	7,624	0	7,624
Investment Income	<u>10,187</u>	<u>0</u>	<u>10,187</u>
Total Nonoperating Revenues	<u>1,213,245</u>	<u>366,030</u>	<u>1,579,275</u>
Income (Loss) Before Contributions and Transfers	(246,196)	7,583	(238,613)
Capital Contributions and Transfers			
Capital Contributions	<u>1,459,596</u>	<u>763,908</u>	<u>2,223,504</u>
Change in Net Assets	<u>\$1,213,400</u>	<u>\$771,491</u>	<u>\$1,984,891</u>

14. PRIOR-PERIOD CORRECTION

In the past, ECB recognized state General Fund revenue and established a related receivable to correspond to the year-end accrual of salaries and fringe benefits expenses. However, according to GASB Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was effective for FY 2000-01, recognition of general purpose revenues should correspond to the government's fiscal period during which the appropriation will be made. As a result, the FY 2001-02 financial data has been restated to eliminate the state receivable and state General Fund revenue related to the accrual of salaries and fringe benefits expenses during FY 2001-02. Further, the cumulative effect of the error is reflected as a restatement of the beginning net asset balance as of July 1, 2001, by a decrease of \$87,869, and a reduction of the FY 2001-02 state General Fund revenue by \$20,260.

The FY 2001-02 financial data, presented for comparative purposes, have been restated to accrue a prior-year payable to the State Building Trust Fund of \$76,392 that had been recorded as a cash payment instead of a payable. While there is no net effect on net assets, the cash and payable amounts have been reclassified accordingly.

The FY 2001-02 financial data, presented for comparative purposes, have been restated to reduce the long-term bond payable and broadcasting expense by \$4,887 because the FY 2001-02 principle payment was improperly classified as an expense instead of a reduction of the bonds payable.

The net effect of all of the prior-period corrections is to decrease the net asset fund balance at June 30, 2002, by \$103,242.

15. PRIOR-PERIOD RECLASSIFICATION

ECB implemented a new financial reporting model, as required by the provision of GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2002. However, ECB made additional presentation changes during FY 2002-03 to better meet the requirements of GASB Statement Number 34, including classifying the revenue received from the State for operations and insurance proceeds as nonoperating revenues, and separately presenting current and noncurrent assets and liabilities. These changes are also reflected in the FY 2001-02 financial data presented for comparative purposes.

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Report on Compliance and Control ■

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Wisconsin Educational Communications Board Radio Network as of and for the year ended June 30, 2003, and have issued our report thereon dated December 9, 2003. We did not audit the financial statements of the Wisconsin Public Radio Association. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Wisconsin Public Radio Association were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the additional requirements of *Government Auditing Standards*.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Educational Communications Board Radio Network's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Educational Communications Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This independent auditor's report is intended for the information and use of the Educational Communications Board, the Wisconsin Legislature's Joint Legislative Audit Committee, and the Corporation for Public Broadcasting. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

December 9, 2003

LEGISLATIVE AUDIT BUREAU

by 
Diann Allsen
Audit Director